

Post Enron: Lessons Learned, Needed Reforms

By Senator Debbie Stabenow

April 1, 2002

When the first reports of financial chicanery surfaced at the energy company, Enron, few people realized what the failure would come to represent.

The story was outrageous enough because thousands of employees lost their jobs and their life savings. The company's auditor, Arthur Andersen, once a revered leader in its field, now faces a federal indictment and is fighting for its very existence.

But beyond that, thousands of people around the country who had invested money in Enron lost billions of dollars. In Michigan, for example, the Genesee County Employee's Pension fund lost \$370,000.

In the months that followed, it became clear that the problem of financial misrepresentation was not unique to Enron. Several other prominent companies also had to revise their financial reports.

In fact, between 1998 and 2000, 464 revised financial statements were issued by corporations. That's almost as many restatements as in the previous 20 years combined!

This is an alarming trend and simply unacceptable. Companies have a duty to report their earnings accurately so investors can make informed decisions. Without this, our financial markets cannot function fairly or efficiently.

To properly address the investor protection and auditing industry issues raised in light of the Enron scandal, the Senate Banking Committee, on which I serve as a Member, held an exhaustive series of ten hearings during February and March.

Our hearings did not receive the headlines other hearings have received. We did not subpoena Enron CEO Ken Lay or other high-profile Enron employees suspected of serious wrongdoing. Instead, we focused on what was broken in the larger system and how

to fix it. We heard from certified public accountants, former Securities and Exchange Commission Chairmen, academics, consumer and employee groups, and many other interested parties.

They laid out starkly the problems and the need for Congressional action.

As these hearings closed, I teamed up with my Banking Committee colleagues – Senator Chris Dodd of Connecticut and Senator Jon Corzine of New Jersey – to introduce the Investor Confidence in Public Accountability Act. Our bill creates a stronger regulatory system for auditors and ensures they follow industry “best practices” when auditing a company's books.

The bill also establishes greater scrutiny of auditing companies who also offer consulting services to the firms they audit. Many people believe that the mixing of auditing and consulting services creates a conflict of interest that tempts auditors to overlook certain financial practices because they don't want to lose lucrative consulting contracts from those same corporations.

Our bill also helps insulate regulators and accounting standards setters from corporate and political meddling.

Finally, the bill increases required financial disclosures, as well as information about stock sales by corporate leaders, so the investing public has better information about the financial health of companies.

In the months ahead, Congress will turn its attention to these investor protection and auditing issues. I hope we will also pass legislation to protect retirement savings and crack down on corporate leaders who are ignoring basic corporate ethics, not to mention common sense.

Enron was the catalyst for change. But we are facing problems that extend far beyond one company in Houston. The need to act is clear and I am committed to the fight to enact strong new protections for America's investing public and employee pensions.